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BY

Mr. DANIEL WILLARD

PRESIDENT OF THE BALTIMORE AND OHIO RAILROAD COMPANY

AT THE

ANNUAL MEETING

OF

THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

IN

NEW YORK CITY

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It is my understanding that transportation is to be the subject for consideration at this session of your annual conference, and that it is your desire that I should discuss the subject with particular reference to the steam railroad.

For the purpose of outlining briefly my own views concerning the larger problem, I would like your permission to read from a report which I submitted to the Council of National Defense in November 1917:

"A nation should have a national transportation system and such a system should embrace and make proper use of all available and suitable agencies. The fullest possible economic co-operation should be encouraged and required between all such agencies. Inasmuch as the business of transportation for hire partakes of a monopolistic character, all agencies so used should be subject to governmental regulation in the public interest.

* * * * *

"Among the many agencies of transportation, the following are in most common use: the natural and artificial waterways with the various craft designed to operate thereon; the highways with the different vehicles and contrivances designed to operate thereon; and the specialized roads, such as electric and steam railways with the special equipment designed for each. Other agencies may be developed.

* * * * *

"The co-ordinated transportation system of a nation should be so adjusted that each agency will perform the particular function for which it is best adapted, and, speaking broadly, that country which is provided with the most efficient transportation system—other things being equal—ought to be the most prosperous."

Mr. Theodore N. Vail once told me that for many years it had been his ambition to so develop the telephone system that a man in his own home in any part of the United States could talk with a man in his own home in any other part of the United States, and he very nearly, if not quite, lived to see the realization of

his ideal. To my mind the means of transportation should, in effect, be just as universal and all-embracing as the means of communication, and the ideal which Mr. Vail sought to achieve as regards the telephone should be an inspiration to accomplish also the highest development in transportation. Unfortunately, however, we have not yet developed a single agency of transportation of such universal adaptability as the telephone. If we are to have a complete and well articulated national transportation system, it can only be had, as things are now, by the co-ordination of a number of different transportation agencies, including the steam and electric railways, the utilization of coastwise and inland waterways, the full economic use of the highways, improved and unimproved, the use of the motor truck, and such other transportation agencies as may be best suited to the particular requirement. Of all the transportation agencies at this time available, particularly for interior service, the steam railroad is undoubtedly the most important.

It is hardly worth while to discuss at this time the history and growth of the American Railroad System, so-called, because on the first of last March, with the termination of Federal control, the railroads in continental United States entered an entirely new epoch under an entirely new system of regulation as provided in the so-called Transportation Act of 1920.

At the termination of Federal control the steam railroads in the United States had an aggregate length of about 260,000 miles. They also owned in addition thereto approximately 145,000 miles of second, third and other tracks. Further, they owned approximately 2,350,000 freight cars, some 65,000 locomotives and about 55,000 cars designed for passenger train service—the entire property representing a combined investment of approximately \$20,000,000,000. I am now speaking of those roads subject to the jurisdiction of the Interstate Commerce Commission and which are dealt with in the official reports of that body. More than eight hundred separate and independent companies own and operate the mileage which constitutes the Railroad System, so-called, of the United States.

The new Transportation Act provides among other things that in times of emergency the Interstate Commerce Commission shall

have authority to treat all of the cars, engines and facilities of all the railroads, regardless of ownership, in such way as to best serve the interests of the public and the commerce of the country.

The law also lays down a definite rule for the guidance of the Interstate Commerce Commission in the matter of fixing rates and in that connection says that rates shall be fixed so as to yield a fair return upon the value of the property devoted to the public use, and further provides that for a period of two years from March 1, 1920, rates *shall* be fixed so as to yield $5\frac{1}{2}$ per cent., and *may* be fixed to yield 6 per cent. upon the value of the property used for transportation purposes, and the Commission in harmony with the law has fixed rates designed to yield an annual return of 6 per cent. upon an aggregate valuation which the Commission tentatively fixed for rate-making purposes, in this particular case of about \$19,000,000,000.

If this country were fully developed and if we had already reached the peak load which the railroads will be expected to carry, the railroad problem would be a much simpler one than it is under conditions as they actually do exist. Our country has not stopped growing. It is far from being fully developed. Experience of the past demonstrates clearly that at least \$1,000,000,000 per annum must be provided as a minimum for capital expenditures for new equipment and facilities necessary to keep the railroads abreast of the transportation requirements of the country. If the Government owned the railroads, it could, of course, if the people so desired and Congress so determined, raise, by general taxation, the funds necessary to provide in whole or in part, the additional transportation facilities required, or it could fix rates sufficient to provide either in whole or in part the large sums of new capital needed on that account each year. However, Congress by virtue of the Transportation Act of 1920 has decided that the policy of private ownership and operation of the railroads shall be continued and has undertaken to provide a plan of regulation to make that policy possible and successful. The owners of the properties, that is the railroad companies, can only obtain new capital providing they can satisfy investors of their ability not only to pay the agreed rate of interest, but can also give satisfactory assurances of their ability to repay the principal sum itself when due.

Congress undoubtedly believed when it fixed the rule for rate-making in the Transportation Act that it had provided a plan that would enable the railroads to establish and maintain a firm basis of credit, sufficient in fact to enable them to raise in the aggregate at least \$1,000,000,000 of new capital each year. It was clearly developed during the hearings preliminary to the passing of the Act that unless the railroads were able to raise that amount of new capital each year, they would not be able to provide adequate facilities to take care of the business of the country and in consequence private ownership as an economic policy would fail. The people in this country cannot afford to experiment with or to have any system of ownership or control of the railroads unless such system is able by and of itself to provide, as needed, the additional facilities necessary to move the growing traffic of the country. Personally, I believe the new Act will enable the railroads to do this. But if it should develop that the rate of return permitted under the law is insufficient to accomplish the end desired, it will then be necessary either to amend the law so as to provide a more liberal return or adopt some other method. The only alternative would seem to be ownership and operation by the Government.

I do not believe that the people in this country as a whole desire Government ownership and operation of the railroads. I do believe that they are and will be willing to pay such rates and charges as may be necessary to insure the success of private ownership and operation of the railroads, provided, however, that the railroads under private management are able to give and do give the public such service as it reasonably desires and is entitled to, but if the railroads fail to give reasonable and satisfactory service the public will undoubtedly demand a change.

The Transportation Act contains one other far-reaching provision and in my opinion a wise one. It authorizes, as I have already said, the Interstate Commerce Commission in times of emergency to issue such orders concerning the use of the equipment and facilities of all the railroads as may best serve the requirements of the public for transportation. The law also states that the Commission may in the exercise of this power use such agencies as it may select.

The railway managers shortly after the termination of Federal control, and actuated by a desire to co-operate with the Interstate Commerce Commission in an effort to comply with the real spirit of the new Act, formed an Advisory Committee of eleven railway presidents geographically selected. A Car Service Division has also been established in Washington under the direction of an Executive Manager, who reports to the Advisory Committee. This Car Service Division has a staff of about 150 persons, and it receives daily reports from all the railroads in the United States concerning transportation conditions, particularly as affected by car supply. This Car Service Division works in close harmony with the Bureau of Service of the Interstate Commerce Commission, and its purpose is to carry out the intent of the law so far as possible by the voluntary co-operation of the separate railroads.

Since the termination of Federal control more than 170,000 empty box cars have been moved on special orders by the Car Service Division from the south and east to the territory west of the Mississippi River, where they were urgently needed. An equal number of open top cars have been moved from the western lines into the eastern territory, where they were needed for coal and other shipments requiring equipment of that character. Many other important transportation matters have been handled by the Car Service Division. At all times there has been a full understanding with the Interstate Commerce Commission. In some instances the Commission's support and interest have been supplemented by special service orders which they have issued.

The condition of the carriers' equipment at the termination of Federal control was much below the standard formerly maintained by the railroads under private control. Furthermore, the Government had not been able, or in any event did not provide as much new equipment during the twenty-six months of Government control as the railroads had been in the habit of providing during similar periods. The result was that when the railroads were returned to their owners they were inadequately supplied with equipment, and such equipment as they had was in an impaired condition while there was a larger volume of business offering for movement than at any time before. The situation was further

complicated by the switchmen's strike, which began in Chicago early in April and spread to a greater or less extent over the entire eastern region.

The carriers realizing that they were inadequately equipped to handle the unusual volume of business offering, and appreciating that even if the large amount of new capital necessary to purchase new equipment were available, time also was an element to be reckoned with and some months must necessarily elapse before new facilities could be provided, decided that the important thing to do was to make the best use possible of the facilities already available. With that thought in mind they unanimously pledged their best efforts to increase the daily movement of all freight cars to an average minimum of 30 miles per car per day; to increase the average car loading to a minimum of 30 tons per car, and to reduce the number of cars held out of service awaiting repairs to not more than 4 per cent. of the total number of cars owned. If these three standards so set up could all be accomplished concurrently, it would in effect be equivalent to adding over 500,000 cars to those available for service. A number of railroads in the United States are already making more than an average of 30 miles per car per day, and on a number of lines the average car load is much in excess of 30 tons per car, and on some lines the number of cars awaiting repairs is not in excess of 4 per cent. But the railroads have not yet been able as a whole to accomplish the standards which they have set up for themselves and it was not expected that the standards would be immediately reached. I am confident, however, that they will ultimately be reached and exceeded. A very marked improvement has already been made. During the month of August the net ton mileage movement on Class I railroads was in excess of 42,000,000,000 ton miles, which was a considerably larger performance than ever accomplished before by the railroads in a similar period of time.

In spite, however, of all that the carriers may be able to do with the existing plant, they will not be able to handle all of the business that this country is even now capable of producing. It should be kept in mind that during the war unusual efforts were made to increase productive capacity in all directions. More ground was cultivated than ever before, and larger crops were raised, existing factories were greatly enlarged and new factories of unprecedented

size were built. The productive capacity of the country was thereby greatly increased, for war purposes, it is true, but the development is there and can and will be used largely for peace purposes. During the same period the railroad facilities were not increased at all. In fact, it may almost be said that the capacity of the railroads, that is the carrying capacity, was less at the termination of Federal control than it was at the beginning, for the reason that during the entire twenty-six months of Federal control the Government bought only about 100,000 freight cars, which was approximately the amount that the railroads had been in the habit of buying during each twelve months' period in the past. The number of locomotives bought during the period of Federal control was also considerably less than ordinarily would be purchased during a similar period. No passenger equipment at all was purchased during the period of Government control. It was found that the railroads with their existing plant could take care of the war situation, and properly all men and material available were used in other directions, but in times of peace the people are not willing to accept the character of service which the railroads gave during the war, nor is it in the interests of the people as a whole that they should be required to accept such service. In order that the carriers may be able to properly handle the business offered in the future, they must make very large expenditures not only for additional cars and engines, but for additional running tracks and particularly for additional terminals.

So far I have assumed that the commerce of the country would depend largely, if not wholly, upon the railroads for transportation. It seems clear to me, however, that it is in the larger public interest that in developing a transportation system which will be adequate to meet the transportation requirements of our growing commerce, each suitable agency of transportation should be used to the extent that it is economically desirable. To be more specific, where a given expenditure, if applied to water transportation, will provide for the movement of the traffic offered at a lower economic cost, including interest on investment and cost of maintenance, than would be the case if an equal investment were made in any other transportation agency, then in such cases the water transportation should be developed. Also, if the use of the motor truck on improved highways in certain localities and for certain distances is

shown to be cheaper, including interest on investment and cost of maintenance, than any other method available, then that form of transportation should be made use of under such circumstances.

Personally, I believe that the situation should be studied as a whole and along the lines indicated in the recommendation which I submitted to the Council of National Defense in 1917. Each transportation agency should be used to the extent that such use is economically desirable. To make less use than that of each available agency would be wasteful and uneconomic, and if a more expensive agency were used when a less expensive one might be equally available, that practice would also be wasteful and uneconomic. I think in the past there has been a tendency on the part of those who happened to be interested in some particular agency, to try to extend its use in many instances beyond the proper economic limits, and this has resulted in unwise expenditures which in the end proved to be uneconomic and consequently unprofitable. Such mistakes ought to be avoided in the future.

Again, to be specific, I do not believe that the motor truck as now developed and operating on any form of highway can compete in the carriage of long distance traffic with the steam locomotive running on a steel girder properly supported. I do believe, however, that for short distance traffic and in sparsely settled communities the motor truck, not only on the improved highway, but even on the ordinary dirt highway, may be used in conjunction with the railway and thus afford the cheapest form of transportation. I think the same thing may be said also with reference to some of our inland waterways. I think there should be an intelligent effort to develop all agencies of transportation, each within its own sphere, but all so co-ordinated with each other as to constitute a nation-wide system which would approximate in its effectiveness the efficiency of the telephone system of which I have already spoken.

Undoubtedly it has happened at different times and places in the past that the railroads have taken business where the out-of-pocket cost, not to mention the cost of capital, has been in excess of the entire revenue. The country as a whole would be better off if such business could be handled in such a way as would give reasonable profits to those engaged in the enterprise. There was a time when railway managers were believed to be opposed to the

development of other means of transportation, which might become competitors for the business which they were hauling or desired to haul. But whatever may have been the attitude of the railway managers in the past, that is not their attitude at the present time and I am certain that they will be glad collectively or individually to co-operate with all other transportation agencies in such way as will inure to the greatest public good, because in the end all enterprises of an individual character must be tested by that rule. Whatever contributes to the public good is likely to endure, and anything inimical to the public good is certain to fail.

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